

PHUMELELA LOCAL MUNICIPALITY (FS 195)

DRAFT ANNUAL BUDGET



2017/2018 TO 2019/2020

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

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Abbreviations and Acronyms

BSC:	Budget Steering Committee
CFO:	Chief Financial Officer
MM:	Municipal Manager
CPI:	Consumer Price Index
DBSA:	Development Bank of South Africa
DoRA:	Division of Revenue Act
DWA:	Department of Water Affairs
FBS:	Free basic services
FMG:	Financial Management Grant
GRAP:	General Recognised Accounting Practice
HR:	Human Resources
IDP:	Integrated Development Strategy
IT:	Information Technology
kℓ:	kilolitre
km:	kilometre
KPA:	Key Performance Area
KPI:	Key Performance Indicator
kWh:	kilowatt
ℓ:	litre
LED:	Local Economic Development
MFMA:	Municipal Financial Management Act
MIG:	Municipal Infrastructure Grant
MPRA:	Municipal Properties Rates Act
MSA:	Municipal Systems Act
MSIG:	Municipal Systems Improvement Grant
MTREF:	Medium-term Revenue and Expenditure Framework
NERSA:	National Electricity Regulator South Africa
NGO:	Non-Governmental organisations
NKPIs:	National Key Performance Indicators
NT:	National Treasury
OHS:	Occupational Health and Safety
PMS:	Performance Management System
PPE:	Property Plant and Equipment
RBIG:	Regional Bulk Infrastructure Grant
SALGA:	South African Local Government Association
SALGBC:	South African Local Government Bargaining Council
SDBIP:	Service Delivery Budget Implementation Plan

1.1 MAYOR'S REPORT

The report by the Honourable Mayor: Cllr TJ Motaung will be included after delivering his budget speech on before the 3 May 2017.

1.2 COUNCIL RESOLUTIONS

ITEM

RE: PRESENTATION AND TABLING OF THE DRAFT 2017/2018 CAPITAL AND OPERATING BUDGET AND IDP DOCUMENT

RESOLVED

- That council notes the annual operating and capital budget of the municipality for the 2017/2018 MTREF and the two projected outer years 2018/2019 and 2019/2020 as set out in the following tables:
 - Table A1 – Budget Summary
 - Table A2 – Budgeted Financial Performance (revenue and expenditure by standard classification)
 - Table A3 – Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - Table A4 – Budgeted Financial Performance (revenue and expenditure)
 - Table A5 – Budgeted Capital Expenditure by vote, standard classification and funding
 - Table A6 – Budgeted Financial Position
 - Table A7 – Budgeted Cash flows
 - Table A8 – Cash backed reserves/accumulated surplus reconciliation
 - Table A9 – Asset Management
 - Table A10 – Basic Service delivery measurement
- That Council notes the budget related policies as reviewed by administration

The reviewed policies are as follows:

- Property Rates Policy
 - Tariff Policy
 - Indigent Policy
 - Credit Control and Debt Collection Policy
 - Supply Chain Management Policy
 - Bank and Investment Policy
 - Budget and Virements Policy
 - Debt impairment Policy
 - SLUMA Tariffs
 - Accounting policies
- That council notes the new tariffs for the different services and rates and taxes to be implemented as from the 1 July 2017 as outlined on Annexure A (The increases are as follows:
 - Property Rates 7.10 % (2017/18), 7.10% (2018/19), 7.10% (2019/20)
 - Water 10% (2017/18), 10% (2018/19), 10% (2019/20)
 - Sanitation 10% (2017/18), 10% (2018/19), 10% (2019/2020)
 - Refuse 10% (2017/18), 10% (2018/19), 10% (2019/20)
 - Electricity 10% (2017/18), 10% (2018/19), 10% (2019/20)
 - That council take notice that the measurable performance objectives must still be determined for the budget year 2017/2018

Signed by.....
CLLR T.J. MOTAUNG (MAYOR)

.....
DATE

1.3 EXECUTIVE SUMMARY

1.3.1 Background

This draft budget of Phumelela Local Municipality is compiled in accordance with prescribed legislative frameworks for the MTREF that is due to start on the 1 July 2017 to June 2020. According to section 16(2) of the MFMA, read together with section 215 of the constitution, the Mayor should at least 90 days before the beginning of every financial year table an annual budget for consultation to Council. This budget is, therefore, tabled to Council for consultation as operating and capital budget of the municipality for the financial year 2017/2018 and for the two projected outer years (2018/2019 and 2019/2020). This budget is thus tabled as a draft pending amendments as may be necessary following consultations with the local community and other relevant stakeholders as required by section 23 of the MFMA.

Section 24 of the MFMA requires that, the municipal council must at least 30 days before the start of the New Year consider the approval of the annual budget. This budget will be approved by the municipal council on/before the 31 May 2017 after incorporating public comments and amendments effected. This document was prepared with serious consideration of the local socio-economic scene and the continuous increase in unemployment and poor standard of living in our community. The municipality must thus, make initiatives to combat the challenges of poverty, unemployment and inequality through enhancement of projects that will encourage local economic development and other employment creation initiatives to improve lives of its community.

The municipality's cash flow trend is not good; this is due to poor debtors' collection and creditors' control. The community has been encouraged to come forth and register as indigents, as and if they qualify in accordance with the set criteria. This will help the municipality in cash forecasting and budget for realisable goals. Despite the current cash flow challenges, we are striving to improve the current status of service delivery through implementation of various cost saving methods and controls.

The Office of Budget and Treasury under the auspices of the CFO shall oversee the whole budgeting process, budget implementation and the monitoring thereof. All sections are advised to start saving costs in performing their duties yet maximising their performance. The following are some of the most overspending expenditure votes that should be seriously controlled: telephone, travel and subsistence, overtime, print and stationery. Every employee of the municipality shall take the ownership of this document and ensure maximum service delivery through implementation of the IDP priorities as set.

The municipality continues to provide for free basic water, electricity, sanitation and refuse-removal services but only to indigents and up-to a set benchmark. For the 2017/2018 MTREF, the indicative allocations for 2018/19 and 2019/20 have been calculated taking into account provisions of circular 85 of the MFMA issued in December 2016. Electricity bulk price increases of 10 percent, CPI forecast of 6.4 percent in 2017/2018 and 5.7 percent in 2018/19 and 5.6 percent in 2019/19 as well as household growth in line with the period between 2001 and 2011. These variables will be updated in future budgets to reflect any changes in the growth in prices and/or change in affordability of our communities.

1.3.2 Overview

The application of sound financial management principles for the compilation of PLM's financial plan is essential and critical to ensure that PLM remains financially viable and that municipal services are provided sustainably, economically and equitably to all its communities. PLM's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. This exercise has resulted in shift from the surplus of R51 129 to the surplus of R84 636 for the first financial year of the MTREF. The PLM has also introduced strategic measures to encourage consumers to pay their arrear debt.

National Treasury's MFMA Circular No. 85 and 86 were used to guide the compilation of the 2017/2018 MTREF. The main challenges experienced during the compilation of the 2017/2018 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, sanitation, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the given income base;
- The increased cost of electricity (due to tariff increases introduced by NERSA). This is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable as there will be a point where services will no longer be affordable; and
- Salary increases for municipal staffs that continue to exceed consumer inflation, as well as the need to fill critical vacancies.

The following budget principles and guidelines directly informed the compilation of the 2017/2018 MTREF:

- The 2017/2018 Mid-year Budget Performance Report priorities and targets, as well as the base line allocations contained in the budget were adopted where applicable as the upper limits for the new baselines for the 2017/2018 annual budget;
- Current service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Where tariffs were increased, affordability and the inflation rate as measured by the CPI were considered, price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity were also considered. In addition, MFMA Circular 85 and 86 were also considered. In these Circulars municipalities are urged to move towards tariffs that are cost reflective, and take into account the need to address infrastructure backlogs;
- There will be no amounts budgeted for national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
 - Special Projects (bursary fund, learnership, etc.) – The budget for bursaries is limited to those already awarded
 - Consultant Fees – This is limited to existing contracts as well as where the municipality does not have the necessary skills.
 - Furniture and office equipment (inventory) - The budget for these is limited to the requirements for new positions and existing staff that do not have furniture
 - Special Events (disaster management, farmers' support);
 - Refreshments and entertainment;
 - Subsistence and Travelling – The budget for this has been centralised in the Municipal Managers office, and all travelling is pre-authorised by him.
 - Overtime – The budget for this item is meant for extreme cases, where no alternative is available

In view of the executive summary, the following table is a consolidated overview of the 2017/2018 Medium-Term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2017/2018 MTREF

Description	BUDGET 2016/2017 R'000	BUDGET 2017/2018 R'000	BUDGET +1 2018/2019 R'000	BUDGET +2 2019/2020 R'000
Operating Revenue	131 049	121 633	131 986	142 119
Operating Expenditure	130 666	121 549	128 280	136 806
Surplus/(Deficit)	383	85	3 705	5 313
Capital Expenditure	33 720	84 454	65 364	51 434

Total operating expenditure for the 2017/2018 financial year has been appropriated at R121.6m and translates into a budgeted surplus of R85k. When compared to the 2016/2017, operating surplus is anticipated to decline by 78 percent in the 2017/2018. The operating surplus for the two outer years increases to a surplus of R3.7m in 2018/19 and a surplus of R5.3m is projected for 2019/20, which shows our commitment to service delivery.

The capital budget of R 84.4m for 2017/2018 is 39 percent more when compared to the 2016/2017 Budget. The increase is due to the slight increase in funding from the national government for 2017/18. The capital programme slightly decreases to R65.3m in the 2018/2019 financial year and then further decreases in 2019/2020 to R51.4m. All of these projects (100 percent) of the capital budget will be funded from government grants namely, the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant, Integrated National Electrification Programme Grant and Water Service Infrastructure Grant . Other projects are not reflected on our budget as they fall within the scope of provincial and national government programmes

1.3.3 Operating revenue and expenditure framework

For PLM to continue improving the quality of services provided to its residents it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the PLM and continued economic development;
- Efficient revenue management, which aims to eventually achieve an 85 percent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the PLM.
- The municipality's adopted financial recovery plan

Table 2: The following table is a summary of the 2017/2018 MTREF (classified by main revenue and expenditure source):

FS195 Phumelela - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue By Source											
Property rates	2	-	-	-	-	-	-	-	12 628	13 575	14 593
Service charges - electricity revenue	2	-	-	-	-	-	-	-	7 487	7 930	8 391
Service charges - water revenue	2	-	-	-	-	-	-	-	11 230	12 353	13 588
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	6 959	7 654	8 420
Service charges - refuse revenue	2	-	-	-	-	-	-	-	6 485	7 134	7 847
Service charges - other									-	-	-
Rental of facilities and equipment									4 756	5 040	5 337
Interest earned - external investments									220	234	249
Interest earned - outstanding debtors									5 896	6 440	7 034
Dividends received									-	-	-
Fines, penalties and forfeits									54	58	62
Licences and permits									27	29	31
Agency services									-	-	-
Transfers and subsidies									64 948	70 533	75 498
Other revenue	2	-	-	-	-	-	-	-	943	1 005	1 069
Gains on disposal of PPE									-	-	-
Total Revenue (excluding capital transfers and contributions)		-	-	-	-	-	-	-	121 633	131 986	142 119
Expenditure By Type											
Employee related costs	2	-	-	-	-	-	-	-	61 732	65 914	70 319
Remuneration of councillors									5 723	6 067	6 431
Debt impairment	3								5 113	7 794	8 540
Depreciation & asset impairment	2	-	-	-	-	-	-	-	4 460	4 723	4 998
Finance charges									2 388	2 531	2 679
Bulk purchases	2	-	-	-	-	-	-	-	16 100	17 051	18 042
Other materials	8								-	-	-
Contracted services									2 382	2 524	2 672
Transfers and subsidies									-	-	-
Other expenditure	4, 5	-	-	-	-	-	-	-	23 650	21 676	23 125
Loss on disposal of PPE									-	-	-
Total Expenditure		-	-	-	-	-	-	-	121 549	128 280	136 806
Surplus/(Deficit)		-	-	-	-	-	-	-	85	3 705	5 313
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)									-	-	-
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Transfers and subsidies - capital (in-kind - all)	6	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		-	-	-	-	-	-	-	85	3 705	5 313
Taxation									-	-	-
Surplus/(Deficit) after taxation		-	-	-	-	-	-	-	85	3 705	5 313
Attributable to minorities									-	-	-
Surplus/(Deficit) attributable to municipality		-	-	-	-	-	-	-	85	3 705	5 313
Share of surplus/ (deficit) of associate	7								-	-	-
Surplus/(Deficit) for the year		-	-	-	-	-	-	-	85	3 705	5 313

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfer and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit. Revenue generated from rates and service charges forms a significant part of the revenue base of the PLM. Rates and service charge revenues comprise just above half of the total revenue mix.

In the 2017/2018 financial year, revenue from rates and services charges totalled R44.7m or 37 percent of the operating revenue. This increases to R48.6m and R52.8m in the respective financial years of the MTREF; this will be achieved through robust implementation of debt collection and credit control policy. A notable trend of continuous increase in the total percentage revenue is envisaged to be generated from rates and services charges. This growth can be mainly attributed to an increase in the number of farms that are to be billed. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

The PLM's expenditure framework for the 2017/2018 budget and MTREF is informed by the following:

- Repairs and maintenance backlogs;

- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);
- Funding of the budget over the medium term as informed by Section 18 and 19 of the MFMA;
- The capital programme and backlog eradication; and
- Funding the capital budget and other core services by operational gains and efficiencies.

The budgeted allocation for employee related costs for the 2017/2018 financial year totals R61.8m, which equals 51 percent of the total operating expenditure. Based on the MFMA circular 56, salaries have been budgeted at a rate of 7 percent for the 2017/2018 and annual increase of 6.7 percent in the two outer years of the MTREF respectively. Please note that these costs are the combination of salaries, social contributions and allowances. As part of the PLM's cost reprioritization and cash management strategy, vacancies have been significantly restructured. Most vacancies of critical and strategic positions were filled and that were not filled were also taken into account when this budget was compiled. In addition, expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration and allowances of councillors were determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, no. 20 of 1998. This expenditure item is curbed at R5.7m representing 5 percent of the operating budget. In compiling the salary budget for Councillors, an increase was provided based on the most recent proclamation.

Finance charges consist primarily of the repayment of interest (cost of capital) on long term annuity loans. This interest makes up 2 percent (R2.8m) of the operating expenditure excluding annual redemption for 2018/2019 and increases to R5.2m by 2019/2020.

Bulk purchases are directly informed by the purchase of electricity from Eskom and Department of Water Affairs. The annual price increases have been accounted for in the budget appropriations and directly inform the revenue provisions. The expenditure includes distribution losses resulting from illegal connections, faulty meters and tempering. Bulk purchases are budgeted at R12.5m and R3.6m for electricity and water respectively which totals to 13 percent of the overall operating expenditure.

Contracted services have been identified as a cost saving area for the PLM. As part of the compilation of the 2017/2018 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. Contracted services constitute only R2.4m representing 1.9 percent of the total operating expenditure.

Other expenditure comprises of repairs and maintenance, operational provisions and various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved and is budgeted at R23.6m or 19.4 percent of the operating budget

Operating grants and transfers totals R64.9m in the 2017/2018 financial year, and increases to R70.5m by 2018/19 and R75.4m in 2019/2020.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the PLM. National Treasury continues to encourage municipalities to ensure that rates, tariffs and other charges are cost-reflective yet keeping increases as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 percent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom bulk tariffs is far beyond the mentioned inflation target. Given that, these tariff increases are determined by external agencies, the impact they have on the municipality's electricity tariffs are largely outside the control of the PLM. Discounting the impact of these price increases by lowering consumer tariffs will erode the PLM's future financial position and viability.

It must also be appreciated that the inflation, as measured by consumer price index (CPI), is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity, petrol, diesel, chemicals, cement etc. The current challenge facing the PLM is managing the gap between these cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

1.3.5 Capital expenditure

Table 3: Detailed capital budget per individual project

Program/Project description	Project number	IDP Goal code 2	Individually Approved (Yes/No) 6	Asset Class	Asset Sub-Class	2017/18 Medium Term Revenue & Expenditure Framework			Project information Ward location
						Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	
PMU	MIG		Yes	Furniture and Office Equipment	Capital Spares	1 073	1 118	1 124	All Wards
Vrede/Themba/lie Ex 1: Upgrading of the sports facility, Ph 3	MIG		Yes	Sport and Recreation Facilities	Roads	1 898	–	–	Ward 1
Ezenzeleni/Warden: Construction of 1.5km paved road and storm water (MIS:221571)	MIG		Yes	Roads Infrastructure	Roads	199	–	–	Ward 5,6 and 7
Zamani/Memel: Construction of 2km Paved Road	MIG		Yes	Roads Infrastructure	Roads	2 494	4 103	–	Ward 1 and 8
Ezenzeleni /Warden: Upgrading of Sports Facility	MIG		Yes	Sport and Recreation Facilities	Capital Spares	1 394	966	–	Ward 5,6 and 7
Themba/lie/Vrede (Ex14): Construction of the new 3.5Ml Concrete Reservoir (MIS:235687)	MIG		Yes	Roads Infrastructure	Roads	4 382	178	–	Ward 3
Themba/lie: Construction of 2km paved road and storm water phase 2 (MIS:236604)	MIG		Yes	Roads Infrastructure	Roads	3 800	4 143	3 964	Ward 3
Phumelela: Installation of Water meters	MIG		Yes	Water Supply Infrastructure	Water Treatment Works	1 174	1 298	1 420	All Wards
Themba/lie: Fencing and Infrastructure at Cemeteries	MIG		Yes	Community Facilities	Cemeteries/Crematoria	1 849	3 358	4 459	All Wards
Foot bridge in Phumelela	MIG		Yes	Roads Infrastructure	Roads	1 098	1 102	–	Ward 3
Ezenzeleni /Warden: Construction of 1Km paved road : Phase 2	MIG		Yes	Roads Infrastructure	Roads	2 000	3 700	4 220	Ward 5,6 and 7
Phumelela high mast lights	MIG		Yes	Electrical Infrastructure	Capital Spares	2 500	1 199	3 000	All Wards
Zamani : Upgrading Sports facility	MIG		Yes	Sport and Recreation Facilities	Capital Spares	7 091	1 199	5 247	Ward 1 and 8
Refurbishment of water treatment works and pump stations	WSIG		Yes	Water Supply Infrastructure	Water Treatment Works	10 000	15 000	20 000	All Wards
Construction of Dam in Warden/Ezenzeleni	RBIG		Yes	Water Supply Infrastructure	Water Treatment Works	43 500	23 000	–	Ward 5,6 and 7
Electricification in Warden/Ezenzeleni	DOE		Yes	Electrical Infrastructure	Capital Spares	–	5 000	8 000	Ward 5,6 and 7
						84 454	65 364	51 434	

In 2017/2018 an amount of R84.4m has been appropriated for the development of infrastructure around the three units of the municipality. An amount equal to R30.9m of the overall funding of these projects will be received from MIG and R43.5m from RBIG and R10.0m will be from Water Service Infrastructure Grant. Water infrastructure receives the highest allocation of R43.5m equalling 52 percent of the total capital budget.

1.4 ANNUAL BUDGET TABLES- PARENT MUNICIPALITY

The following pages present the ten main budget tables as required in terms of regulation 8 of the Municipal Budget and Reporting Regulations-Part 2 regulation 6. These tables set out the municipality's 2017/2018 budget and MTREF as tabled to the Council. Each table is accompanied by explanatory notes.

Table 4 (Table A1) – Budget Summary
FS195 Phumelela - Table A1 Consolidated Budget Summary

Description	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands										
Financial Performance										
Property rates	-	-	-	-	-	-	-	12 628	13 575	14 593
Service charges	-	-	-	-	-	-	-	32 161	35 071	38 246
Investment revenue	-	-	-	-	-	-	-	220	234	249
Transfers recognised - operational	-	-	-	-	-	-	-	64 948	70 533	75 498
Other own revenue	-	-	-	-	-	-	-	11 676	12 572	13 533
Total Revenue (excluding capital transfers and contributions)	-	-	-	-	-	-	-	121 633	131 986	142 119
Employee costs	-	-	-	-	-	-	-	61 732	65 914	70 319
Remuneration of councillors	-	-	-	-	-	-	-	5 723	6 067	6 431
Depreciation & asset impairment	-	-	-	-	-	-	-	4 460	4 723	4 998
Finance charges	-	-	-	-	-	-	-	2 388	2 531	2 679
Materials and bulk purchases	-	-	-	-	-	-	-	16 100	17 051	18 042
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	-	-	-	-	-	-	-	31 145	31 994	34 337
Total Expenditure	-	-	-	-	-	-	-	121 549	128 280	136 806
Surplus/(Deficit)	-	-	-	-	-	-	-	85	3 705	5 313
Transfers and subsidies - capital (monetary allocation)	-	-	-	-	-	-	-	-	-	-
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	-	-	-	-	-	-	-	85	3 705	5 313
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	-	-	-	-	-	-	-	85	3 705	5 313
Capital expenditure & funds sources										
Capital expenditure	-	-	-	-	-	-	-	84 454	65 364	51 434
Transfers recognised - capital	-	-	-	-	-	-	-	84 454	65 364	51 434
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	-	-	-	-
Total sources of capital funds	-	-	-	-	-	-	-	84 454	65 364	51 434
Financial position										
Total current assets	-	-	-	-	-	-	-	98 816	106 160	112 072
Total non current assets	-	-	-	-	-	-	-	765 016	826 487	871 095
Total current liabilities	-	-	-	-	-	-	-	21 229	22 503	23 853
Total non current liabilities	-	-	-	-	-	-	-	33 725	35 749	37 894
Community wealth/Equity	-	-	-	-	-	-	-	808 878	874 396	921 421
Cash flows										
Net cash from (used) operating	-	-	-	-	-	-	-	109 991	61 991	43 287
Net cash from (used) investing	-	-	-	-	-	-	-	(84 454)	(60 364)	(43 434)
Net cash from (used) financing	-	-	-	-	-	-	-	(187)	(199)	(211)
Cash/cash equivalents at the year end	-	-	-	-	-	-	-	323	1 751	1 393
Cash backing/surplus reconciliation										
Cash and investments available	-	-	-	-	-	-	-	2 591	4 155	3 942
Application of cash and investments	-	-	-	-	-	-	-	(56 605)	(53 675)	(61 621)
Balance - surplus (shortfall)	-	-	-	-	-	-	-	59 196	57 830	65 563
Asset management										
Asset register summary (WDV)	-	-	-	-	-	-	765 016	765 016	826 487	871 095
Depreciation	-	-	-	-	-	-	4 460	4 460	4 723	4 998
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	3 543	3 543	3 761	3 990
Free services										
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	7 148	7 148	7 863	8 649
Households below minimum service level										
Water:	-	-	-	-	-	-	0	0	0	0
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	2	2	2	2
Refuse:	-	-	-	-	-	-	2	2	2	2

Explanatory notes on Table A1 – Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flows, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

3. Financial Management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow, as well as the capital budget. The Budget Summary provides the key information in this regard:
 - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
 - b. Capital expenditure is balanced by capital funding sources, of which
 - i. Transfers recognised is reflected in the Financial Performance Budget;
 - ii. Borrowing is incorporated in the net cash from financing in the Cash Flow Budget;
 - iii. Internally generated funds are financed from a combination of the current operating surplus, accumulated cash-backed surpluses from previous years and envisaged budget year revenue collection. The amount is incorporated in the Net cash from investing in the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving, indicates that the necessary cash resources are available to fund the Capital Budget.
4. The cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations were not cash-backed. This has placed the municipality in a very vulnerable financial position. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations. It can therefore be seen that over the MTREF there is progressive improvement in the level of cash-backing of obligations showing an ultimate surplus.
5. Even though the council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs

Table 5 (Table A2) Budgeted Financial Performance (revenue and expenditure by standard classification)

FS195 Phumelela - Table A2 Consolidated Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1									
Revenue - Functional										
<i>Governance and administration</i>		-	-	-	-	-	-	76 090	82 250	87 805
Executive and council		-	-	-	-	-	-	3 150	3 307	3 466
Finance and administration		-	-	-	-	-	-	72 940	78 943	84 339
Internal audit		-	-	-	-	-	-	-	-	-
<i>Community and public safety</i>		-	-	-	-	-	-	145	154	163
Community and social services		-	-	-	-	-	-	145	154	163
Sport and recreation		-	-	-	-	-	-	-	-	-
Public safety		-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		-	-	-	-	-	-	84	90	96
Planning and development		-	-	-	-	-	-	30	32	34
Road transport		-	-	-	-	-	-	54	58	62
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		-	-	-	-	-	-	45 315	49 492	54 055
Energy sources		-	-	-	-	-	-	8 717	9 234	9 771
Water management		-	-	-	-	-	-	14 821	16 304	17 935
Waste water management		-	-	-	-	-	-	11 352	12 487	13 736
Waste management		-	-	-	-	-	-	10 425	11 467	12 614
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
Total Revenue - Functional	2	-	-	-	-	-	-	121 633	131 986	142 119
Expenditure - Functional										
<i>Governance and administration</i>		-	-	-	-	-	-	54 714	54 800	58 423
Executive and council		-	-	-	-	-	-	17 638	18 745	19 910
Finance and administration		-	-	-	-	-	-	36 181	35 098	37 492
Internal audit		-	-	-	-	-	-	895	957	1 021
<i>Community and public safety</i>		-	-	-	-	-	-	3 276	3 502	3 740
Community and social services		-	-	-	-	-	-	1 585	1 694	1 808
Sport and recreation		-	-	-	-	-	-	1 691	1 808	1 931
Public safety		-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		-	-	-	-	-	-	14 705	15 694	16 736
Planning and development		-	-	-	-	-	-	12 855	13 726	14 645
Road transport		-	-	-	-	-	-	1 850	1 967	2 091
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		-	-	-	-	-	-	48 854	54 284	57 907
Energy sources		-	-	-	-	-	-	13 762	14 575	15 422
Water management		-	-	-	-	-	-	16 949	19 159	20 439
Waste water management		-	-	-	-	-	-	10 568	11 870	12 723
Waste management		-	-	-	-	-	-	7 575	8 679	9 323
<i>Other</i>	4	-	-	-	-	-	-	-	-	-
Total Expenditure - Functional	3	-	-	-	-	-	-	121 549	128 280	136 806
Surplus/(Deficit) for the year		-	-	-	-	-	-	85	3 705	5 313

Explanatory notes to Table 5 (Table A2) – Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of these functional areas which enables the National treasury to compile 'whole of government' reports.
2. Note the Total revenue in this table excludes capital revenues and therefore will not balance to the operating revenue which includes capital transfers shown in Table A4.
3. Note that as a general principle the revenues for the trading services should exceed their expenditures.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenue sources reflected under the Budget and Treasury office.

Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

FS195 Phumelela - Table A3 Consolidated Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand										
Revenue by Vote	1									
Vote 1 - Council And Executive		-	-	-	-	-	-	3 150	3 307	3 466
Vote 2 - Financial And Administration Services		-	-	-	-	-	-	72 940	78 943	84 339
Vote 3 - Planning and Development		-	-	-	-	-	-	30	32	34
Vote 5 - Community and Social Services		-	-	-	-	-	-	145	154	163
Vote 6 - Public Safety		-	-	-	-	-	-	54	58	62
Vote 7 - Sports and Recreation		-	-	-	-	-	-	-	-	-
Vote 8 - Waste Management		-	-	-	-	-	-	10 425	11 467	12 614
Vote 9 - Waste Water Management		-	-	-	-	-	-	11 352	12 487	13 736
Vote 10 - Road Transport		-	-	-	-	-	-	-	-	-
Vote 11 - Water		-	-	-	-	-	-	14 821	16 304	17 935
Vote 12 - Electricity		-	-	-	-	-	-	8 717	9 234	9 771
Vote 12 - Health		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
Total Revenue by Vote	2	-	-	-	-	-	-	121 633	131 986	142 119
Expenditure by Vote to be appropriated	1									
Vote 1 - Council And Executive		-	-	-	-	-	-	22 351	23 759	25 245
Vote 2 - Financial And Administration Services		-	-	-	-	-	-	33 260	31 993	34 190
Vote 3 - Planning and Development		-	-	-	-	-	-	11 957	12 774	13 634
Vote 5 - Community and Social Services		-	-	-	-	-	-	1 585	1 694	1 808
Vote 6 - Public Safety		-	-	-	-	-	-	850	908	970
Vote 7 - Sports and Recreation		-	-	-	-	-	-	1 691	1 808	1 931
Vote 8 - Waste Management		-	-	-	-	-	-	7 575	8 679	9 323
Vote 9 - Waste Water Management		-	-	-	-	-	-	10 568	11 870	12 723
Vote 10 - Road Transport		-	-	-	-	-	-	1 000	1 059	1 121
Vote 11 - Water		-	-	-	-	-	-	16 949	19 159	20 439
Vote 12 - Electricity		-	-	-	-	-	-	13 762	14 575	15 422
Vote 12 - Health		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
Total Expenditure by Vote	2	-	-	-	-	-	-	121 549	128 280	136 806
Surplus/(Deficit) for the year	2	-	-	-	-	-	-	85	3 705	5 313

Explanatory notes to Table 6 (Table A3) – Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of Phumelela Local Municipality. This means it is possible to present the operating surplus or deficit per a particular vote.

Table 7 (Table A4) – Budgeted Financial Performance (revenue and expenditure)

FS195 Phumelela - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
Revenue By Source											
Property rates	2	–	–	–	–	–	–	–	12 628	13 575	14 593
Service charges - electricity revenue	2	–	–	–	–	–	–	–	7 487	7 930	8 391
Service charges - water revenue	2	–	–	–	–	–	–	–	11 230	12 353	13 588
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	6 959	7 654	8 420
Service charges - refuse revenue	2	–	–	–	–	–	–	–	6 485	7 134	7 847
Service charges - other									–	–	–
Rental of facilities and equipment									4 756	5 040	5 337
Interest earned - external investments									220	234	249
Interest earned - outstanding debtors									5 896	6 440	7 034
Dividends received									–	–	–
Fines, penalties and forfeits									54	58	62
Licences and permits									27	29	31
Agency services									–	–	–
Transfers and subsidies									64 948	70 533	75 498
Other revenue	2	–	–	–	–	–	–	–	943	1 005	1 069
Gains on disposal of PPE									–	–	–
Total Revenue (excluding capital transfers and contributions)		–	–	–	–	–	–	–	121 633	131 986	142 119
Expenditure By Type											
Employee related costs	2	–	–	–	–	–	–	–	61 732	65 914	70 319
Remuneration of councillors									5 723	6 067	6 431
Debt impairment	3								5 113	7 794	8 540
Depreciation & asset impairment	2	–	–	–	–	–	–	–	4 460	4 723	4 998
Finance charges									2 388	2 531	2 679
Bulk purchases	2	–	–	–	–	–	–	–	16 100	17 051	18 042
Other materials	8								–	–	–
Contracted services		–	–	–	–	–	–	–	2 382	2 524	2 672
Transfers and subsidies		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	–	–	–	–	–	–	–	23 650	21 676	23 125
Loss on disposal of PPE									–	–	–
Total Expenditure		–	–	–	–	–	–	–	121 549	128 280	136 806
Surplus/(Deficit)											
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)					–	–	–	–	85	3 705	5 313
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Transfers and subsidies - capital (in-kind - all)	6	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions		–	–	–	–	–	–	–	85	3 705	5 313
Taxation									–	–	–
Surplus/(Deficit) after taxation		–	–	–	–	–	–	–	85	3 705	5 313
Attributable to minorities									–	–	–
Surplus/(Deficit) attributable to municipality		–	–	–	–	–	–	–	85	3 705	5 313
Share of surplus/ (deficit) of associate	7								–	–	–
Surplus/(Deficit) for the year		–	–	–	–	–	–	–	85	3 705	5 313

Explanatory notes to Table 7 (Table A4)

1. Total revenue is envisaged to be R121.6m, escalates to R131.9m in 2018/19 and 142.1m in 2019/20.
2. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are declining steadily over the MTREF.
3. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in the future years, yet saving employment.

Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source

FS195 Phumelela - Table A5 Consolidated Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
Capital expenditure - Vote											
Multi-year expenditure to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		-	-	-	-	-	-	-	-	-	-
Vote 3 - Planning and Development		-	-	-	-	-	-	-	-	-	-
Vote 5 - Community and Social Services		-	-	-	-	-	-	-	-	-	-
Vote 6 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 7 - Sports and Recreation		-	-	-	-	-	-	-	-	-	-
Vote 8 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 9 - Waste Water Management		-	-	-	-	-	-	-	-	-	-
Vote 10 - Road Transport		-	-	-	-	-	-	-	-	-	-
Vote 11 - Water		-	-	-	-	-	-	-	-	-	-
Vote 12 - Electricity		-	-	-	-	-	-	-	-	-	-
Vote 12 - Health		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	7	-	-	-	-	-	-	-	-	-	-
Single-year expenditure to be appropriated	2										
Vote 1 - Council And Executive		-	-	-	-	-	-	-	-	-	-
Vote 2 - Financial And Administration Services		-	-	-	-	-	-	-	-	-	-
Vote 3 - Planning and Development		-	-	-	-	-	-	-	1 073	1 118	1 124
Vote 5 - Community and Social Services		-	-	-	-	-	-	-	1 849	3 358	4 459
Vote 6 - Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 7 - Sports and Recreation		-	-	-	-	-	-	-	10 384	2 165	5 247
Vote 8 - Waste Management		-	-	-	-	-	-	-	-	-	-
Vote 9 - Waste Water Management		-	-	-	-	-	-	-	-	-	-
Vote 10 - Road Transport		-	-	-	-	-	-	-	9 592	13 048	8 184
Vote 11 - Water		-	-	-	-	-	-	-	59 056	39 476	21 420
Vote 12 - Electricity		-	-	-	-	-	-	-	2 500	6 199	11 000
Vote 12 - Health		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		-	-	-	-	-	-	-	84 454	65 364	51 434
Total Capital Expenditure - Vote		-	-	-	-	-	-	-	84 454	65 364	51 434
Capital Expenditure - Functional											
Governance and administration		-	-	-	-	-	-	-	-	-	-
Executive and council		-	-	-	-	-	-	-	-	-	-
Finance and administration		-	-	-	-	-	-	-	-	-	-
Internal audit		-	-	-	-	-	-	-	-	-	-
Community and public safety		-	-	-	-	-	-	-	12 233	5 523	9 706
Community and social services		-	-	-	-	-	-	-	1 849	3 358	4 459
Sport and recreation		-	-	-	-	-	-	-	10 384	2 165	5 247
Public safety		-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-
Economic and environmental services		-	-	-	-	-	-	-	10 665	14 166	9 308
Planning and development		-	-	-	-	-	-	-	1 073	1 118	1 124
Road transport		-	-	-	-	-	-	-	9 592	13 048	8 184
Environmental protection		-	-	-	-	-	-	-	-	-	-
Trading services		-	-	-	-	-	-	-	59 056	39 476	21 420
Energy sources		-	-	-	-	-	-	-	-	-	-
Water management		-	-	-	-	-	-	-	59 056	39 476	21 420
Waste water management		-	-	-	-	-	-	-	-	-	-
Waste management		-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	2 500	6 199	11 000
Total Capital Expenditure - Functional	3	-	-	-	-	-	-	-	84 454	65 364	51 434
Funded by:											
National Government		-	-	-	-	-	-	-	84 454	65 364	51 434
Provincial Government		-	-	-	-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	4	-	-	-	-	-	-	-	84 454	65 364	51 434
Public contributions & donations	5	-	-	-	-	-	-	-	-	-	-
Borrowing	6	-	-	-	-	-	-	-	-	-	-
Internally generated funds		-	-	-	-	-	-	-	-	-	-
Total Capital Funding	7	-	-	-	-	-	-	-	84 454	65 364	51 434

Explanatory notes to Table 8 (Table A5) – Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year budget appropriations. A total of R84.4m has been allocated for the 2017/18 financial year, R65.3m for the 2018/19 financial year and flattens out to R51.4m in the 2019/20 financial year.
3. The capital programme is funded from capital transfers from national and provincial government.

Table 9 (Table A6) – Budgeted Financial Position

FS195 Phumelela - Table A6 Consolidated Budgeted Financial Position

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand											
ASSETS											
Current assets											
Cash									323	1 751	1 393
Call investment deposits	1	–	–	–	–	–	–	–	2 268	2 405	2 549
Consumer debtors	1	–	–	–	–	–	–	–	95 653	101 392	107 475
Other debtors									–	–	–
Current portion of long-term receivables									–	–	–
Inventory	2								572	613	655
Total current assets		–	–	–	–	–	–	–	98 816	106 160	112 072
Non current assets											
Long-term receivables									–	–	–
Investments									–	–	–
Investment property									18 457	19 564	20 738
Investment in Associate									–	–	–
Property, plant and equipment	3	–	–	–	–	–	–	–	746 559	806 923	850 357
Agricultural											
Biological											
Intangible											
Other non-current assets											
Total non current assets		–	–	–	–	–	–	–	765 016	826 487	871 095
TOTAL ASSETS		–	–	–	–	–	–	–	863 832	932 647	983 168
LIABILITIES											
Current liabilities											
Bank overdraft	1										
Borrowing	4	–	–	–	–	–	–	–	68	72	76
Consumer deposits											
Trade and other payables	4	–	–	–	–	–	–	–	21 161	22 430	23 776
Provisions											
Total current liabilities		–	–	–	–	–	–	–	21 229	22 503	23 853
Non current liabilities											
Borrowing		–	–	–	–	–	–	–	2 747	2 911	3 086
Provisions									30 978	32 837	34 807
Total non current liabilities		–	–	–	–	–	–	–	33 725	35 749	37 894
TOTAL LIABILITIES		–	–	–	–	–	–	–	54 954	58 251	61 746
NET ASSETS	5	–	–	–	–	–	–	–	808 878	874 396	921 421
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)			–	–					808 878	874 396	921 421
Reserves	4	–	–	–	–	–	–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY	5	–	–	–	–	–	–	–	808 878	874 396	921 421

Explanatory notes to table 9 (Table A6) – Budget Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets and Liabilities as “accounting” Community Wealth or Equity. The order of items within each group illustrates requirements to be met from cash, and appears first.
3. Table A6 provides a detailed analysis of the major components of a number of items, including:
 - a. Call investments deposits;
 - b. Consumer debtors;
 - c. Property, plant and equipment;
 - d. Trade and other payables;
 - e. Non-current Provisions;
 - f. Changes in net assets; and
 - g. Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 10 (Table A7) – Budgeted Cash Flow Statement

FS195 Phumelela - Table A7 Consolidated Budgeted Cash Flows

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates									10 103	10 860	11 674
Service charges									28 196	28 057	33 582
Other revenue									6 575	5 914	6 267
Government - operating	1								64 948	70 533	75 498
Government - capital	1								84 454	60 364	43 434
Interest									6 477	5 339	5 827
Dividends									-	-	-
Payments											
Suppliers and employees									(89 111)	(116 051)	(129 395)
Finance charges									(1 650)	(3 025)	(3 600)
Transfers and Grants	1								-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	-	-	-	-	-	109 991	61 991	43 287
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE									-	-	-
Decrease (Increase) in non-current debtors									-	-	-
Decrease (increase) other non-current receivables									-	-	-
Decrease (increase) in non-current investments									-	-	-
Payments											
Capital assets									(84 454)	(60 364)	(43 434)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	-	-	-	-	-	(84 454)	(60 364)	(43 434)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									-	-	-
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
Payments											
Repayment of borrowing									(187)	(199)	(211)
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	(187)	(199)	(211)
NET INCREASE/ (DECREASE) IN CASH HELD		-	-	-	-	-	-	-	25 350	1 428	(358)
Cash/cash equivalents at the year begin:	2								(25 028)	323	1 751
Cash/cash equivalents at the year end:	2								323	1 751	1 393

Explanatory notes to Table 10 (Table A7) - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2017/18 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term

Table 11 (Table A8) – Cash Backed Reserves/Accumulated Surplus Reconciliation

FS195 Phumelela - Table A8 Consolidated Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Cash and investments available											
Cash/cash equivalents at the year end	1	–	–	–	–	–	–	–	323	1 751	1 393
Other current investments > 90 days		–	–	–	–	–	–	–	2 268	2 405	2 549
Non current assets - Investments	1	–	–	–	–	–	–	–	–	–	–
Cash and investments available:		–	–	–	–	–	–	–	2 591	4 155	3 942
Application of cash and investments											
Unspent conditional transfers		–	–	–	–	–	–	–	–	–	–
Unspent borrowing		–	–	–	–	–	–	–	–	–	–
Statutory requirements	2	–	–	–	–	–	–	–	–	–	–
Other working capital requirements	3	–	–	–	–	–	–	–	(56 605)	(53 675)	(61 621)
Other provisions		–	–	–	–	–	–	–	–	–	–
Long term investments committed	4	–	–	–	–	–	–	–	–	–	–
Reserves to be backed by cash/investments	5	–	–	–	–	–	–	–	–	–	–
Total Application of cash and investments:		–	–	–	–	–	–	–	(56 605)	(53 675)	(61 621)
Surplus(shortfall)		–	–	–	–	–	–	–	59 196	57 830	65 563

Explanatory notes to Table 11 (Table A8) – Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Compliance with section 18 of the MFMA is assumed because a surplus indirectly indicates that the annual budget is appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2017/18 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

Table 12 (Table A9) – Asset Management

FS195 Phumelela - Table A9 Consolidated Asset Management

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
TOTAL CAPITAL EXPENDITURE - Asset class		–	–	–	–	–	–	84 454	65 364	51 434
ASSET REGISTER SUMMARY - PPE (WDV)	5									
Roads Infrastructure								175 392	188 440	196 623
Storm water Infrastructure								–	–	–
Electrical Infrastructure								41 217	42 415	45 415
Water Supply Infrastructure								275 976	315 452	336 872
Sanitation Infrastructure								198 557	198 557	198 557
Solid Waste Infrastructure								23 695	23 695	23 695
Rail Infrastructure								–	–	–
Coastal Infrastructure								–	–	–
Information and Communication Infrastructure								–	–	–
Infrastructure		–	–	–	–	–	–	714 837	768 560	801 163
Community Facilities								1 849	5 208	9 667
Sport and Recreation Facilities								10 384	12 548	17 795
Community Assets		–	–	–	–	–	–	12 233	17 756	27 462
Heritage Assets								–	–	–
Revenue Generating								–	–	–
Non-revenue Generating								–	–	–
Investment properties		–	–	–	–	–	–	–	–	–
Operational Buildings								17 412	17 412	17 412
Housing								18 457	19 564	20 738
Other Assets		–	–	–	–	–	–	35 868	36 976	38 150
Biological or Cultivated Assets								–	–	–
Servitudes								–	–	–
Licences and Rights								–	–	–
Intangible Assets		–	–	–	–	–	–	–	–	–
Computer Equipment								–	–	–
Furniture and Office Equipment								–	–	–
Machinery and Equipment								2 078	3 196	4 320
Transport Assets								–	–	–
Libraries								–	–	–
Zoo's, Marine and Non-biological Animals								–	–	–
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	–	–	–	–	–	–	765 016	826 487	871 095
EXPENDITURE OTHER ITEMS										
Depreciation	7	–	–	–	–	–	–	4 460	4 723	4 998
Repairs and Maintenance by Asset Class	3	–	–	–	–	–	–	3 543	3 761	3 990
Roads Infrastructure		–	–	–	–	–	–	1 000	1 059	1 121
Storm water Infrastructure		–	–	–	–	–	–	–	–	–
Electrical Infrastructure		–	–	–	–	–	–	–	–	–
Water Supply Infrastructure		–	–	–	–	–	–	759	805	854
Sanitation Infrastructure		–	–	–	–	–	–	521	553	587
Solid Waste Infrastructure		–	–	–	–	–	–	552	585	620
Rail Infrastructure		–	–	–	–	–	–	–	–	–
Coastal Infrastructure		–	–	–	–	–	–	–	–	–
Information and Communication Infrastructure		–	–	–	–	–	–	–	–	–
Infrastructure		–	–	–	–	–	–	2 832	3 002	3 182
Community Facilities		–	–	–	–	–	–	107	114	121
Sport and Recreation Facilities		–	–	–	–	–	–	7	8	9
Community Assets		–	–	–	–	–	–	114	122	130
Heritage Assets		–	–	–	–	–	–	–	–	–
Revenue Generating		–	–	–	–	–	–	500	530	561
Non-revenue Generating		–	–	–	–	–	–	–	–	–
Investment properties		–	–	–	–	–	–	500	530	561
Operational Buildings		–	–	–	–	–	–	–	–	–
Housing		–	–	–	–	–	–	–	–	–
Other Assets		–	–	–	–	–	–	–	–	–
Biological or Cultivated Assets		–	–	–	–	–	–	–	–	–
Servitudes		–	–	–	–	–	–	–	–	–
Licences and Rights		–	–	–	–	–	–	–	–	–
Intangible Assets		–	–	–	–	–	–	–	–	–
Computer Equipment		–	–	–	–	–	–	–	–	–
Furniture and Office Equipment		–	–	–	–	–	–	24	29	34
Machinery and Equipment		–	–	–	–	–	–	73	78	83
Transport Assets		–	–	–	–	–	–	–	–	–
Libraries		–	–	–	–	–	–	–	–	–
Zoo's, Marine and Non-biological Animals		–	–	–	–	–	–	–	–	–
TOTAL EXPENDITURE OTHER ITEMS		–	–	–	–	–	–	8 603	8 484	8 988
Renewal and upgrading of Existing Assets as % of total capex		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Renewal and upgrading of Existing Assets as % of deprecn		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
R&M as a % of PPE		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,5%	0,5%	0,5%
Renewal and upgrading and R&M as a % of PPE		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

Explanatory notes to Table 12 (Table A9) – Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

2. National Treasury has recommended that municipalities should allocate at least 40 percent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be at least 10% of PPE. Phumelela Local Municipality does not meet any of these recommendations. The reason for this is that the capital budget of the municipality is funded in the form of conditional grants, and these can only be used for new assets as opposed to being used for the renewal of existing assets.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 regulation 4 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and Senior Managers, Budget Manager, IDP Manager of the municipality meeting under the chairpersonship of the Council Committee for Finance.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the PLM's IDP and the budget, taking into account the need to protect the financial sustainability of the municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 IDP, Service Delivery and Budget Implementation Plan

This is the 1st year of the fourth generation of the IDP and will be adopted by council on or before the 31 of May 2017.

The PLM's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly informs the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fifth revision cycle included the following Key IDP Processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring process.

The IDP has been taken into a business and financial planning process leading up to the 2017/18 MTREF, based on the approved 2016/17 MTREF and the Mid-year review. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2017/2018 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the Mid-year performance

against the 2016/2017 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detailed operating budget appropriations and three-year capital programme.

2.1.2 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2017/2018 MTREF, an extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of this MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation)
- Performance trends
- Cash Flow Management Strategy
- Debtor payment levels
- Investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 85 and 86 has been taken into consideration in the planning and prioritisation process.

2.1.3 Community Consultation

The draft 2017/2018 MTREF as tabled by Council on 31 March 2017 for community consultation will be published on the municipality's website, and hard copies made available at municipal offices and other community centres. In addition budget road shows will be held in different municipal clusters. Inputs will also be collected via e-mails.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant considered as part of the finalisation of the 2017/2018 MTREF.

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic

environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (PGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIS);
- Accelerated and Shared Growth Initiative of South Africa (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP);
- The National Priority Outcomes; and
- National Development Plan

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's six strategic objectives for the 2017/2018 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 16 – IDP Strategic Objectives

Priority	Objectives	Outcomes
1. Revenue	Increase own revenue from trading services and other revenue streams	<p>Ensure that every consumer who is provided with a service is billed correctly and pay for the service by performing:</p> <ul style="list-style-type: none"> ➤ Data cleansing ➤ Constant follow up on outstanding accounts. ➤ Collaboration with Eskom for the installation of split meters in Warden and Ezenzeleni to curb electricity losses which will increase revenue and reduce bulk purchases. ➤ Annually maintain indigent register ➤ Perform supplementary valuation rolls ➤ Implementation of traffic management

2. SCM Management	To procure goods and services in line with sec 217 of the constitution and chapter 11 of the MFMA no.56 of 2003	Eliminate irregular, fruitless and wasteful expenditure. Value for money without compromising quality through competition, transparency and equity
3. Asset Management	To ensure that assets of the municipality are accounted for in terms of GRAP standards	Development of asset policy Develop and maintain GRAP 17 asset register Ensure that assets are comprehensively ensured
4. Budget reporting	Prepare and implement the budget in the terms of budget reforms	Ensure that the budget is approved by council before the start of the new financial year Ensure that monthly, quarterly and yearly reports are prepared and submitted to council on time.
5. Expenditure management	Ensure that expenditure incurred provided for in the approved budget	Reduction of unauthorised expenditure
6. Review of LED strategy	To have an updated LED strategy	Updated LED strategy
7. Exploiting and pursuing new investment opportunities	To attract new investors in around Phumelela	<ul style="list-style-type: none"> - Agriculture/ Dairy farm - Gas exploration - Smart technology factory - Tourism opportunities
8. Tourism	To promote tourism opportunities around Phumelela	To increase tourism opportunities
9. Cemeteries and Parks	To ensure effective management of graveyards and cemeteries in the Phumelela municipal area	Adequate provision for, safe and well maintained graveyards and cemeteries.
10. Sport and recreation facilities	To ensure access to sports and recreation in the Phumelela municipal area	Adequate provision, for safe and well maintain sport and recreational facilities, as measured in terms of the target set for the programs and projects in the 5 year IDP
11. Traffic and parking	To ensure effective and traffic management and parking in the Phumelela area	Adequate provision for traffic management and parking, as measured in terms of the targets set for programmes and project in the IDP
12. Waste management	To ensure effective and efficient waste management in the area from storage to disposal	Environmental clean waste disposal site
13. Energy and Electricity management	To ensure effective and efficient electricity supply	Sufficient provision of electricity
14. Municipal roads and storm water	To provide the mobility and enhance economic development in the Municipal environment	Improved access and enhancement of economic development
15. Sanitation	To ensure provision of reliable sanitation and related effluent	Healthy environment in the Phumelela area

16. Water	To ensure provision of clean potable water	Increased access to clean potable water
17. Alignment of Organizational Structure with IDP	To ensure that the structure is reviewed and linked to IDP Alignment of Organizational Structure with Powers & Functions Establish proper reporting lines	Structure reviewed and approved by Council
18. Filling of critical vacancies	To ensure that recruitment campaign is conducted in line with recruitment policy. To appoint / attract possible competent and skilled personnel	Clear job descriptions linked to KPA's and KPI's and deliverables. Ensure compliance with minimum competencies
19. Development and review appropriate policies and by-laws	To have a policy driven and regulated environment	Policies adopted by Council including the Bylaws
20. Skill Audit to evaluate competencies & address shortcomings	To identify the skills gaps. Training to be in line with the WSP and approved by Council	Training plan in line with WSP approved by Council
21. Organizational Performance Management	Cascading Performance Management System to staff below Section 57. To ensure that a Culture of performance is installed	Clear job description
22. Improvement of Government/ governance Structures/ functionality of Council Committees	To ensure functionality of Section 80 Committee, ward committees, Oversight Committee and LLF. Adopt organization wide schedule of meetings and comply with it	Section 80 resuscitated LLF properly constituted Audit committee established Schedule of dates adopted by Council
23. Legislative compliance	Report monthly, quarterly, mid-year and annually. Reporting on the LGTAS (Monitoring and evaluation)	Ensure compliance in terms of reporting (MFMA guidelines)
24. Communication strategy	Better use of Municipal Web-site Improve way of communication with public and stakeholders	Ensure functional website Convene Quarterly engagement with stakeholders

25. Spatial Development Framework	Review of the Spatial Development Framework	Reviewed Spatial Development Framework
26. Disaster Management	Development of a disaster management plan	Disaster management plan Developed
27. Sector Plans	FA: 9.1 Development of Sector plans for basic services; Water, Waste, Sanitation, Electricity/Energy and Roads & Pavement	

In order to ensure integrated and focused service delivery between all spheres of government it was important for the PLM to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
 - Provide electricity;
 - Provide water;
 - Provide sanitation;
 - Provide waste removal;
 - Provide housing;
 - Provide roads and storm water;
 - Provide planning services (Town Planning); and
 - Maintaining the infrastructure of the PLM.
2. Economic growth and development that leads to sustainable job creation by:
 - Ensuring there is a clear structural plan for the PLM;
 - Ensuring planning processes function in accordance with set timeframes;
 - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
3. Fight poverty and build clean, healthy, safe and sustainable communities:
 - Effective implementation of the Indigent Policy;
 - Working with the provincial department of health to provide primary health care services;
 - Extending waste removal services and ensuring effective PLM cleansing;
 - Ensuring all waste water treatment works are operating optimally;
 - Working with strategic partners such as SAPS to address crime;
 - Ensuring safe working environments by effective enforcement of building and health regulations;
 - Promote viable, sustainable communities through proper zoning; and
 - Promote environmental sustainability by protecting wetlands and key open spaces.
4. Integrated Social Services for empowered and sustainable communities
 - Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme
5. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
 - Optimising effective community participation in the ward committee system; and
 - Implementing Batho Pele in the revenue management strategy.
6. Promote sound governance through:

- Publishing the outcomes of all tender processes on the municipal website
7. Ensure financial sustainability through:
 - Reviewing the use of contracted services
 - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
 8. Optimal institutional transformation to ensure capacity to achieve set objectives
 - Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the PLM. The five-year programme responds to the development challenges and opportunities faced by the PLM by identifying the key performance areas to achieve the five strategic objectives mentioned above.

In addition to the five-year IDP, the PLM undertakes an extensive planning and developmental strategy which primarily focuses on a longer term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the PLM so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the PLM's IDP, associated sectorial plans and strategies, and the allocation of resources of the PLM and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fifth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the PLM;
- Initiating zone planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2017/18 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 17 (Table SA4) – Reconciliation between the IDP strategic objectives and the budget revenue

FS195 Phumelela - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

Strategic Objective	Goal	Goal Code	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand												
To ensure provision of clean potable water	Increased access to clean potable water									10 425	11 467	12 614
To ensure provision of reliable sanitation and related effluent	Healthy environment in Phumelela area									11 352	12 487	13 736
To provide mobility and enhance economic development in the Municipal environment	Improve access and enhancement of economic development									–	–	–
To ensure that recruitment campaign is conducted in line with recruitment policy . To appoint / attract possible competent and skilled personnel	Clear job description linked to KPA's and KPI's and deliverables. Ensure compliance with minimum competencies									4 956	5 432	5 952
Increase own revenue from trading services and other revenue	Ensure that every consumer who is provided with a service is billed correctly and pay for the service by performing: 1. Data cleansing 2. Constant follow up on outstanding accounts. 3. Collaboration with Eskom for the installation of split meters in Warden and Ezenzeleni to curb electricity losses which will increase revenue and reduce bulk purchases. 4. Annually maintain indigent register 5. Perform supplementary valuation rolls 6. Implementation of traffic management									67 643	73 327	78 390
To facilitate institutional transformation and development in the Phumelela local municipality	To ensure institutional transformation and development in terms of Corporate services, Property services and Property services: Commonage									4 767	5 053	5 352
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager & town planning									3 150	3 307	3 466
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management									10 425	11 467	12 614
To ensure effective and efficient electricity supply	Sufficient provision of electricity									8 717	9 234	9 771
To ensure effective management of graveyards and cemeteries in the Phumelela municipal area	Adequate provision for, safe and well maintained graveyards and cemeteries									145	154	163
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library , sport and recreational facilities									–	–	–
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control									54	58	62
To ensure effective firefighting in the Phumelela municipal area	To ensure proper fire fighting									–	–	–
										–	–	–
Allocations to other priorities			2									
Total Revenue (excluding capital transfers and contributions)			1	–	–	–	–	–	–	121 633	131 986	142 119

Table 18 (Table SA5) – Reconciliation between the IDP strategic objectives and budgeted operating expenditure

FS195 Phumelela - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)

Strategic Objective	Goal	Goal Code	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand												
To ensure provision of clean potable water	Increased access to clean potable water									16 949	19 159	20 439
To ensure provision of reliable sanitation and related effluent	Healthy environment in Phumelela area									10 568	11 870	12 723
To provide mobility and enhance economic development in the Municipal area	Improve access and enhancement of economic development									1 000	1 059	1 121
To ensure that recruitment campaign is conducted in line with recruitment policy. To ensure that every consumer who is provided with a service is billed correctly and	Clear job description linked to KPA's and KPFs and deliverables. Ensure									12 855	13 726	14 645
Increase own revenue from trading services and other revenue	Ensure that every consumer who is provided with a service is billed correctly and									34 662	33 472	35 762
To facilitate institutional transformation and development in the Phumelela area	To ensure institutional transformation and development in terms of									2 521	2 689	2 864
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager &									19 232	20 447	21 728
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management									7 575	8 679	9 323
To ensure effective and efficient electricity supply	Sufficient provision of electricity									13 762	14 575	15 422
To ensure effective management of grave yards and cemeteries in the Phumelela municipal area	Adequate provision for, safe and well maintained grave yards and cemeteries									1 585	1 694	1 808
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library, sport and recreational facilities									-	-	-
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control									840	908	970
To ensure effective firefighting in the Phumelela municipal area	To ensure proper fire fighting											
Allocations to other priorities												
Total Expenditure				1	-	-	-	-	-	121 549	128 280	136 806

Table 19 (Table SA6) – Reconciliation between the IDP strategic objectives and the budgeted capital expenditure

FS195 Phumelela - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

Strategic Objective	Goal	Goal Code	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand												
To ensure provision of clean potable water	Increased access to clean potable water	A								59 056	39 476	21 420
To ensure provision of reliable sanitation and related effluent	Healthy environment in Phumelela area	B								–	–	–
To provide mobility and enhance economic development in the Municipal area	Improve access and enhancement of economic development	C								9 592	13 048	8 184
To ensure that recruitment campaign is conducted in line with recruitment policy . To ensure that recruitment campaign is conducted in line with recruitment policy . To ensure that recruitment campaign is conducted in line with recruitment policy .	Clear job description linked to KPA's and KPI's and deliverables. Ensure	D								–	–	–
Increase own revenue from trading services and other revenue	Ensure that every consumer who is provided with a service is billed correctly and	E								–	–	–
To facilitate institutional transformation and development in the Phumelela area	To ensure institutional transformation and development in terms of	F								1 073	1 118	1 124
To ensure good governance in the Phumelela local municipality	Ensure good governance in the office of the mayor, council, municipal manager &	G								–	–	–
To ensure good waste management in the Phumelela municipal area	Ensure good solid waste management	H								–	–	–
To ensure effective and efficient electricity supply	Sufficient provision of electricity	I								2 500	6 199	11 000
To ensure effective management of grave yards and cemeteries in the Phumelela municipal area	Adequate provision for, safe and well maintained graveyards and cemeteries	J								1 849	3 358	4 459
To ensure access to quality sport and recreational in the Phumelela municipal area	To ensure proper management of the library , sport and recreational facilities	K								10 384	2 165	5 247
To ensure effective traffic management and parking in the Phumelela municipal area	To ensure proper traffic control	L										
To ensure effective firefighting in the Phumelela municipal area	To ensure proper fire fighting	M										
No strategic Objective in IDP	Health	N										
Other	Other	O										
		P										
Allocations to other priorities				3								
Total Capital Expenditure				1	–	–	–	–	–	84 454	65 364	51 434

2.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the PLM has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets,

monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:

The following table sets out the municipalities main performance objectives and benchmarks for the 2017/2018 MTREF.

Table 20 (Table SA8) – Performance indicators and benchmarks

FS195 Phumelela - Supporting Table SA8 Performance indicators and benchmarks

Description of financial indicator	Basis of calculation	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Borrowing Management											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,1%	2,1%	2,1%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	4,5%	4,4%	4,3%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure ex cl. transfers and grants and contributions	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Safety of Capital											
Gearing	Long Term Borrowing/ Funds & Reserves	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Liquidity											
Current Ratio	Current assets/current liabilities	-	-	-	-	-	-	-	4,7	4,7	4,7
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	-	-	-	-	-	-	-	4,7	4,7	4,7
Liquidity Ratio	Monetary Assets/Current Liabilities	-	-	-	-	-	-	-	0,1	0,2	0,2
Revenue Management											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	85,5%	80,0%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	85,5%	80,0%	85,7%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	78,6%	76,8%	75,6%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old										
Creditors Management											
Creditors System Efficiency	% of Creditors Paid Within Terms (within 'MFMA' s 65(e))								0,0%	0,0%	0,0%
Creditors to Cash and Investments		0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	6014,9%	1175,2%	1565,7%
Other Indicators											
Electricity Distribution Losses (2)	Total Volume Losses (kW)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Water Distribution Losses (2)	Total Volume Losses (kℓ)										
	Total Cost of Losses (Rand '000)										
	% Volume (units purchased and generated less units sold)/units purchased and generated										
Employee costs	Employee costs/(Total Revenue - capital revenue)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	50,8%	49,9%	49,5%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	55,5%	54,5%	54,0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	2,9%	2,8%	2,8%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	5,6%	5,5%	5,4%
IDP regulation financial viability indicators											
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	-	-	-	-	-	-	-	10,2	10,2	11,0
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	193,1%	188,9%	184,7%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	-	-	-	-	-	-	-	0,0	0,2	0,1

2.4 Overview of budget related-policies

The PLM's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.4.1 Review of credit control and debt collection procedures/policies

The Credit Control and Debt Collection Policy as approved by Council on 25 March 2008, has been reviewed. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection

rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the SETA training institution aims to also train indigent households. In line with the national government's initiative to create a million jobs, all role players are actively involved in the reduction of the number of registered indigent households.

The 2017/18 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 85 percent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the PLM's cash levels. In addition, PLM has already embarked on encouraging the community to pay for services and those who cannot afford to pay, be registered as indigents.

2.4.2 Asset Management, Infrastructure Investment and Funding Policy

The Municipality has recently reviewed and adopted a Fixed Assets Management policy which provides all the information relating to the funding and investment related to the Infrastructure.

2.4.3 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 25 March 2008. The SCM policy was reviewed during the Annual Budget for 2017/18 MTREF and this policy will be adopted by council when the Annual Budget is adopted on or before the 31 May 2017.

2.4.4 Other Reviewed Policies

The following policies were also reviewed when the Annual Budget for 2017/18 MTREF was prepared:

- Tariffs Policy
- Credit and Debt Collection Policy
- Indigent Policy
- Write-off Policy
- Petty Cash Policy
- Banking and Investment Policy
- Budget and Virements Policy
- Fixed Asset Management Policy
- Accounting Policy
- Borrowing Policy
- Funds and Reserves Policy
- Property Rates Policy
- Contingent Liabilities Policy
- Commitments Policy
- SPLUMA Tariffs
- Unauthorised, Irregular and Fruitless Expenditure Policy

2.5 OVERVIEW OF THE BUDGET ASSUMPTIONS

2.5.1 External Factors

The Budget Review 2017 notes that the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth. Global conditions have exposed South Africa's own economic weaknesses, with projected GDP growth revised down to 0.9 per cent for 2017 improving gradually to 1.7 per cent in 2018 and 2.4 per cent in 2019.

The weaker outlook is as a result of lower commodity prices, higher borrowing costs, drought and diminished business and consumer confidence. Constrained electricity supply continues to limit growth and deter fixed investment. Exchange rate depreciation is contributing to a higher inflation outlook during 2017.

These factors are expected to ease over the medium term. An upturn in global trade and investment, improved policy certainty, recovering consumer and business confidence, and greater availability and reliability of electricity in the outer years should support stronger growth.

Higher inflation and weaker employment growth will impact on the ability of municipalities to generate and collect revenue on services, to keep expenditures within the budgeted allocations, and to borrow to fund capital expenditure programmes at affordable rates. Therefore it is critical for municipalities to review how they conduct their business to ensure value for money is obtained in all their expenditures, that revenue administration systems are operating effectively, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full.

2.5.2 General inflation outlook and its impact on the municipal activities

There are four key factors that have been taken into consideration in the compilation of the 2017/18 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration.

CPI inflation rate is above the 6 percent parameter set by the South African Reserve Bank.

2.5.3 Collection rate for revenue services

Cash flow is assumed to be 85 percent of billings due to corrective measures that have been implemented. The performance of arrears collection will only be considered as a source of additional cash in-flow once the performance has been carefully monitored.

The achievement of the budgeted revenue is premised on the following assumptions.

- Data cleansing to achieve correct billings
- Reduction of electricity losses as a result of line losses.
- Installation of smart/split meters to prevent tempering
- Cleaning and replacing of broken water meters
- Install new meters in Zamani and Ezenzeleni to abolish the flat rate that is currently being used as a form of billing.
- Appointment of the revenue manager to improve revenue management.
- Subsidising indigents only, as opposed subsidising every household
- Billing consumers correctly for each service consumed.

2.5.4 Salary increases

The South African Local Government Bargaining Council recently entered into a three year Salary and Wage collective agreement for the period 01 July 2015 to 30 June 2018. The agreement reached is as follows:

- 2017/18 Financial Year – 7 Percent
- 2018/19 Financial Year – average CPI + 1 percent
- 2019/20 Financial Year – average CPI + 1 percent

PLM has used this guide in the preparation of its budget for the MTREF.

2.5.5 Growth or decline in tax base of the municipality

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the PLM, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the costs incurred for servicing the household is the same whether it is poor or not, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

2.5.6 Impact of National, Provincial and Local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and, in this regard, various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. As thus, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Infrastructure development;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure, thereby ensuring the achievement of the national, provincial and local objectives.

2.5.7 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of almost 100 percent is achieved on operating expenditure and a total of 100 percent on the capital programme for the 2017/18 MTREF. If the municipality could exhaust all its funds to ensure service delivery to the community, that is a committed municipality.

2.6 Overview of budget funding

2.6.1 Medium-term outlook: operating revenue

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives a reasonable part of its operational revenue from the provision of services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building fees, licences and permits, etc.) make up the rest of the pie.

The revenue strategy is a function of key components such as:

- Growth in the PLM and economic development;
- Revenue management and enhancement;
- Achievement of a 85 percent collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) guideline;

- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- The ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

2.6.2 Medium-term outlook: Capital Revenue

Grant receipts still remain a significant funding source for the capital programme over the medium-term. The borrowing capacity of PLM has essentially reached its limits and going forward borrowing limits will remain constant.

Internally generated funds consist of a mixture between surpluses generated on the operating statement of financial performance and cash backed reserves. In determining the credibility of this funding source it becomes necessary to review the cash flow budget as well as the cash backed reserves and accumulated funds reconciliation, as discussed below. The main contributing factor to the escalation of 100 percent spending is owing to the fact that PLM budget for capital spending on a year to year basis is funded by conditional grants.

2.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understanding for councillors and management. Some specific features include:

Clear separation of capital and operating receipts from government also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the actual collection rate of billed revenue; and

Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 20 (Table A7) – Budgeted Cash flow statement

FS195 Phumelela - Table A7 Consolidated Budgeted Cash Flows

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates									10 103	10 860	11 674
Service charges									28 196	28 057	33 582
Other revenue									6 575	5 914	6 267
Government - operating	1								64 948	70 533	75 498
Government - capital	1								84 454	60 364	43 434
Interest									6 477	5 339	5 827
Dividends									-	-	-
Payments											
Suppliers and employees									(89 111)	(116 051)	(129 395)
Finance charges									(1 650)	(3 025)	(3 600)
Transfers and Grants	1								-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		-	-	-	-	-	-	-	109 991	61 991	43 287
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE									-	-	-
Decrease (Increase) in non-current debtors									-	-	-
Decrease (increase) other non-current receivables									-	-	-
Decrease (increase) in non-current investments									-	-	-
Payments											
Capital assets									(84 454)	(60 364)	(43 434)
NET CASH FROM/(USED) INVESTING ACTIVITIES		-	-	-	-	-	-	-	(84 454)	(60 364)	(43 434)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									-	-	-
Borrowing long term/refinancing									-	-	-
Increase (decrease) in consumer deposits									-	-	-
Payments											
Repayment of borrowing									(187)	(199)	(211)
NET CASH FROM/(USED) FINANCING ACTIVITIES		-	-	-	-	-	-	-	(187)	(199)	(211)
NET INCREASE/ (DECREASE) IN CASH HELD		-	-	-	-	-	-	-	25 350	1 428	(358)
Cash/cash equivalents at the year begin:	2								(25 028)	323	1 751
Cash/cash equivalents at the year end:	2	-	-	-	-	-	-	-	323	1 751	1 393

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
- Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the tabled 2017/2018 MTREF is funded owing to the realised surplus.
- As part of the budgeting and planning guidelines that informed the compilation of the 2017/18 MTREF the end objective of the medium-term framework was to ensure the budget is funded in alignment to section 18 of the MFMA.

2.6.5 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

Table 22 – Funding compliance measurement

FS195 Phumelela Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
High Level Outcome of Funding Compliance												
Total Operating Revenue			-	-	-	-	-	-	-	121 633	131 986	142 119
Total Operating Expenditure			-	-	-	-	-	-	-	121 549	128 280	136 806
Surplus/(Deficit) Budgeted Operating Statement			-	-	-	-	-	-	-	85	3 705	5 313
Surplus/(Deficit) Considering Reserves and Cash Backing			-	-	-	-	-	-	-	59 196	57 830	65 563
MTREF Funded (1) / Unfunded (0)		15	1	1	1	1	1	1	1	1	1	1
MTREF Funded ✓ / Unfunded ✖		15	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

2.7 Annual budgets and SDBIPs – internal departments

The SDBIPs for the different departments will in terms of section 53(1)(c)(ii) of the MFMA be tabled and approved by the mayor within 28 days after the approval of the annual budget. Therefore, at the time when this budget was adopted the SDBIP was yet to be approved.

2.8 Contracts having future budgetary implications

In terms of the PLM's Supply Chain Management Policy, no contracts are awarded beyond the medium term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

PART 2 : SUPPORTING DOCUMENTATION

2.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

2.9.1 In-year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the PLM's website.

2.9.2 Internship programme

The PLM is participating in the Municipal Financial Management Internship programme and has employed eight interns undergoing training in various divisions of the Financial Services Department. 5 of the interns previously trained by the municipality were appointed on permanent basis as of 4th May 2015. Since the introduction of the Internship programme the PLM has successfully employed and trained eighteen interns through this programme and a majority of them were appointed either in the PLM and other institutions such as KPMG, Anglo American and municipalities such as Lekwa Local Municipality and Thabo Mofutsanyana District municipality.

Five new interns will be appointed by the municipality during the 2017-18 financial year.

2.9.3 Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

2.9.4 Audit Committee

PLM is currently using a shared district Audit Committee.

2.9.5 Service Delivery and Budget Implementation Plan

The detailed SDBIP document is at a draft stage and will be finalised after approval of the 2017/18 MTREF on or before the 31st May 2016 directly aligned and informed by the 2015/16 MTREF.

2.9.6 Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

2.9.7 MFMA Training

Current Interns are busy undergoing the MFMA training module in electronic format, and have been registered for the Municipal Finance Management Programme. Nine officials of the municipality have undergone the Municipal Finance Management Programme and are awaiting certification.

2.9.8 Policies

All Phumelela Local Municipality's developed and reviewed policies are aligned to government legislations and regulations as gazetted. Any amendments to our policies will not deviate from gazetted legislations and regulations.

2.10 Municipal manager's quality certificate

I, Acting Municipal Manager of Phumelela Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal manager of Phumelela Local Municipality (FS195)

Signature _____

Date _____